SCOTTISH EDUCATION DEPARTMENT

Pensions for Teachers' Widows

Report of the Working Party on Pensions for Widows, Widowers, Children and other Dependants of Teachers in Scotland

EDINBURGH

HER MAJESTY'S STATIONERY OFFICE

1962

The Working Party was appointed by the Secretary of State in November, 1961, with the following terms of reference:—

"To consider whether, and subject to what conditions, provision should be made for pensions for the widows, widowers, children and other dependants of teachers."

MEMBERSHIP

Nominated by the Secretary of State

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Nominated by the Association of County Councils in Scotland.

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I. Introduction

1. We were appointed by the Secretary of State as one of the four working parties set up in November, 1961, along with the Departmental Committee under the Chairmanship of the Rt. Hon. Lord Wheatley to examine matters affecting teachers. Our terms of reference were:

" To consider whether, and subject to what conditions, provision should be made for pensions for the widows, widowers, children and other dependants of teachers."

2. In view of the representative nature of the Working Party we did not invite the submission of formal evidence. We have had before us, however, information from the Scottish Education Department summarising the previous history of negotiations for a scheme of pensions for the widows of teachers. We have also considered papers prepared by the members nominated by the Educational Institute of Scotland, the Scottish Schoolmasters Association, and the Association of County Councils in Scotland. At an early stage in our deliberations we invited Mr. F. Gordon Smith of the Government Actuary's Department to attend our meetings and we wish to record our great indebtedness to him both for the expert advice he has provided on the actuarial questions arising from our consideration of our remit and for the help he has given us generally out of his wide experience in this field.

3. We met first on 21st December, 1961, and have held six meetings in all. We now have the honour to submit this Report.

II. The Nature of the Report

4. Initial consideration of our remit led us to interpret its requirements in the following way. If the answer to the first question whether provision should be made for pensions for teachers' widows should be in the affirmative, our main task would be to examine the various principles on which a pension scheme for widows might rest so that those responsible for taking decisions as to the introduction of such a scheme would have before them all the relevant considerations. We did not regard it as our purpose to work out in detail any particular scheme and to recommend its adoption.

5. The first question arising from our remit presented us with no difficulty. We were at one in agreeing that it was desirable that provision should be made for pensions for widows, dependent widowers, children, and (so far as practicable) for other dependants of teachers. We noted that such provision was indeed already possible under existing legislation, although only on the basis of redistribution of superannuation benefits at present available to teachers. We were, however, able to agree that this restriction was such as to prevent the formulation of any scheme well adapted to the particular circumstances of teachers. We were also agreed on the range and scale of the benefits that should

be provided under any scheme. Views did diverge, however, on the strength of the case for regarding as the only appropriate alternative to the existing basis one in which the cost of a widows' pension scheme would be met by contributions shared by teachers and their employers.

III. Background of Problem

FINANCIAL BASIS OF THE TEACHERS SUPERANNUATION SCHEME

6. We think it desirable, therefore, before outlining our consideration of the form of provision that might be made for pensions for the widows of teachers, to describe in general terms the financial basis of the main pension scheme. This, except for the period 1919-1922, has been a contributory scheme throughout.

7. For our present purpose we took as our starting point the Teachers (Superannuation) Act, 1956, which made arrangements for putting the Scottish Teachers Superannuation Scheme, which was known to have accumulated a large actuarial deficiency, on a sound financial basis. For the past, the Act provided that the Government Actuary should certify the amount needed to balance the Teachers Superannuation Account at 31st March, 1956, and that the Government should be responsible for meeting in full the deficiency at that date. For the future, two steps were taken. As an immediate measure the rate of teachers' superannuation contributions was increased as from 1st October, 1956, from 10 per cent. of salary to 12 per cent., the teachers and their employers each paying another 1 per cent. As a safeguard against another accumulation of deficiencies, provision was made that any further deficiency revealed by actuarial inquiries to be held into the financial state of the Scheme as at 31st March, 1961, and at five yearly intervals thereafter, should be met by supplementary contributions at rates to be fixed by the Government Actuary to be paid by the employers only.

8. The plan written into the 1956 Act to deal with the existing and any prospective actuarial deficiency was a compromise solution involving some give-and-take by each of the three parties concerned. Thus:

(1) The teachers were required to pay an additional 1 per cent. contribution. An important change from the teachers' point of view, however, was the provision made for deficiencies in the future to be met without any increase in the teachers' contribution. No assurances had previously been given on this point but now, for the first time, teachers' contributious were stabilised by Act of Parliament.

(2) The education authorities were required to increase their contributions by 1 per cent., and they also accepted liability for meeting future deficiencies.

(3) H.M. Government accepted responsibility for the whole of the deficiency existing at the time and, through their assistance to local authorities by Exchequer grants, for a major share of any future deficiency.

9. The Report by the Government Actuary on his inquiry into the financial position of the Teachers Superannuation Scheme in Scotland was published on 15th February, 1962, and it certified the amount of the deficiency in the Scheme at 31st March, 1956, as £37,472,000. This sum was credited to the Scottish Teachers Superannuation Account by the Government with effect from 31st March, 1956.

10. As well as taking the necessary measures to deal with the then existing and any future actuarial deficiency, the 1956 Act made a number of improvements in the benefits provided by the Teachers Superannuation Scheme. It also empowered the Secretary of State, with the consent of the Treasury and after consultation with representatives of education authorities and of teachers, to make provision for the payment of pensions to the widows of teachers, the cost of which would be met by the redistribution of existing benefits and not by any increase in contributions by education authorities and teachers. This is the same basis as that of schemes for similar pensions for local government employees covered by the Local Government Superannuation (Scotland) Acts, 1937 to 1953.

11. In October, 1956, discussions were instituted by the Secretary of State with the Association of County Councils in Scotland, the Scottish Counties of Cities Association and the Educational Institute of Scotland as to the form which the consultation with representatives of education authorities and teachers referred to in the preceding paragraph might take. It was agreed to set up a Working Party to consider the provisions which, within the framework of the Teachers (Superannuation) Act, 1956, might be included in schemes of pensions for the widows of teachers, and to report to the Secretary of State, to the Associations and to the Educational Institute of Scotland. The Report of this Working Party, which was published in October, 1958 (Cmnd. 527), described briefly three schemes which in their opinion would be practicable and within the scope of the Act. The members of the Working Party approved the Report as providing a basis for consideration and discussion by education authorities and teachers. Their approval did not, however, imply that they recommended the adoption of any of the schemes or that they committed the bodies by whom they were nominated to adopting any of them.

12. The local authority associations intimated that they were willing to accept any of the three schemes outlined in the 1958 Working Party Report. In December, 1959, the Scottish Schoolmasters Association expressed the view that none of the three schemes offered satisfactory provision for the widows of teachers, and in February, 1960, the Educational Institute of Scotland stated that their Council had considered the results of a plebiscite conducted by the Institute to obtain the opinion of certificated teachers in Scotland. The Institute stated that it was clear from these results that none of the three schemes was acceptable and that the Institute did not propose to take any further action on the schemes. In the meantime the Secretary of State said in reply to a Parliamentary Question that he saw no prospect of legislation to give effect to a scheme on any basis other than that laid down in the 1956 Act, and, although representations continued to be made locally by teachers to their respective education authorities, there were no further developments nationally until it was agreed that this should be a topic to be examined by one of the four Working Parties appointed in November, 1961.

IV. Existing Statutory Position

13. The existing statutory authority for the provision of pensions for the widows of teachers was examined in detail by the Working Party which reported in October, 1958, and we reproduce as Appendix I an extract of paragraphs 5

and 6 of that Report in which the extent of the powers contained in the 1956 Act is analysed. We are in general agreement as to the potential benefit of the introduction by that statute of powers making possible the establishment of a widows' pension scheme but we are also agreed that these powers are defective in one respect. We are unanimously of the view, on the grounds indicated in paragraph 16 below, that the method of paying for pensions for the widows of teachers which is described in sub-paragraph (7) of paragraph 6 of the 1958 Report is too severely circumscribed.

TEACHERS' REJECTION OF 1958 PROPOSALS

14. In our discussions the teachers' representatives emphasised that the teachers' opposition to the 1958 proposals arose not only from the dislike which might be expected on general grounds among any group of employees of any severe reduction in lump sum payments but also from a belief throughout the profession that for many teachers the lump sum was of particular significance. This belief appears to have derived from the feeling that teachers had a special problem which was not shared by other groups of public service employees, namely that a much higher proportion of teachers than of any other comparable group had on retirement to vacate houses which they occupied as a condition of the tenure of their posts. These teachers, it was claimed, needed their lump sums to buy houses. The argument was that it was still true of a very large number of schools in Scotland that the headmaster was not merely expected but obliged, as a condition of the tenure of his post, to live in the schoolhouse. In many areas assistant teachers also were provided with houses by the education authority, either because this was necessary in order to attract teachers or because there were in fact no houses to buy at prices that assistant teachers could afford. That the provision of houses had its advantages for the teachers was not disputed. The important point, in the teachers' view, was that a very large number of teachers occupied rented houses because they had no option. When they retired they were obliged to vacate these houses and buy a house of their own—and this at an age when they must pay the full price at once. In the eyes of many teachers, therefore, one of the most important of their conditions of service was the provision for payment of a lump sum on which they depended to enable them to buy a house when they retired, and it was this that chiefly distinguished teachers from other public servants.

15. The other members of the Working Party said that they could not accept these arguments as substantiated and that, in particular, they did not agree that a significant number of Scottish teachers required to buy houses on retirement as a result of their being required to vacate provided houses. We therefore asked each education authority for figures showing the number of teachers occupying, as a condition of their employment, schoolhouses or other houses provided by the education authority which they must vacate on retirement. The following table summarises the position for Scotland as a whole as at February, 1962. These figures suggested that, while the need to retain the full value of the lump sum for the purpose of house purchase might be important in the individual case, the occupation of provided houses could hardly be regarded as a factor of overriding general importance in the consideration of possible widows' pension schemes for teachers. It seemed clear that neither the local authorities nor the Government could be expected to accept it as constituting a case for distinguishing the position of teachers in general from that of other public service employees, notably others employed in the local government service.

Type of area	Male Teachers Total No.	No. occupying houses	%	Female Teachers Total No.	No. occupying houses	%	Total Total No. of teachers	Total No. of teachers occupying houses	%
Counties	8,207	1,657	20.2	15,105	731	4.8	23,312	2,388	10.2
Counties and Cities	12,276	1,659	13.5	23,296	731	3.1	35,572	2,390	6.7

EFFECT OF REDUCTIONS OF LUMP SUM

16. Our consideration of the wider aspects of the question of the lump sum has led us, however, to the unanimous view that it was hardly reasonable to expect an employment group for whom the provision of a lump sum had for many years been a condition of service to agree to the financing of any scheme of widows' pensions wholly by the surrender of a substantial portion of the lump sum. The lump sum has come to be regarded as a particularly valuable part of superannuation benefit. It is not in any way an *ex gratia* payment. It is in integral part of the retiring allowance and it is tax free (a not unimportant consideration). Where a superannuation scheme makes no provision for a lump sum, the fraction on which the period of pensionable service is based is normally one-sixtieth of the terminal salary. Where a scheme makes provision for a lump sum, the corresponding fraction is normally one-eightieth. The surrender of a proportion of lump sum is therefore the surrender of part of the retiring allowance. The fact that the lump sum has, for nearly half a century, been an integral part of the teacher's retiring allowance has resulted in very many teachers making long-standing financial arrangements that take into account the fact that a lump sum will ultimately be payable to them. This is an aspect that distinguishes teachers from, on the one hand, other groups such as local government officers whose superannuation schemes have subsequently incorporated provision for a lump sum and, on the other, those groups such as the staffs of nationalised industries who have only recently been brought within the scope of a superannuation scheme of the public service type.

17. In the light of our acceptance of this general view of the position of the lump sum in relation to widows' pension arrangements, we considered whether any other arrangement was practicable within the terms of the 1956 Act. Our conclusion was that the three schemes outlined by the previous Working Party exhaust the practical possibilities of the method of redistribution of existing benefits which is the only means of financing a widows' pension scheme permitted by the terms of this Act.

V. Possibilities under New Legislation

18. We were thus faced with the position that, if any progress was to be made towards securing a pensions scheme for teachers' widows, two things were required. In the first place, an alternative basis acceptable to the parties con-

cerned would have to be found for financing a scheme. In the second, there would have to be new legislation amending the present statute in such a way as to permit the introduction of this new financial basis.

19. While none of us is empowered to commit our nominating bodies in any way, as individuals we are of the opinion that, provided an acceptable alternative financial basis can be devised, the necessary legislation should be introduced with as little delay as possible.

20. What may ultimately be an acceptable alternative financial basis it will be for the bodies concerned to say. We conceived it to be our task to see what choice of alternative bases might be available and to indicate the arguments that could be advanced for and against the adoption of each.

A SHARED COST SCHEME

21. The first possibility we considered was that the cost of a widows' pension scheme might be met by percentage contributions additional to those at present paid in respect of the main superannuation scheme and, like these latter contributions, shared between the teachers and their employers—in short, a shared cost scheme.

Teachers' views

22. The teachers' representatives said that it was a widely and strongly held view in the teaching profession that the provision of pensions for widows was so important a part of conditions of service that employers should recognise it, to a greater or less extent, by being prepared to contribute to the cost of such provision, especially at a time when it is necessary to provide incentives to teacher-recruitment. In order to become an incentive to recruitment, a pension scheme for widows must be provided on terms acceptable to those already in the profession and be competitive with schemes in other occupations to which potential teachers might be drawn. It was claimed by the teachers' representatives that these two conditions could be fulfilled only if the cost of making such provision was shared by the employers of teachers. They referred to the view of the Advisory Council on Education in Scotland in their report on "Measures to Improve the Supply of Teachers in Scotland" published in February, 1959 (Cmnd. 644) where it was stated that the absence so far of any provision for pensions for the widows of teachers was a deterrent to recruitment and that a scheme on terms no less favourable than those available to civil servants would encourage recruitment.

23. The teachers' representatives therefore suggested that any widows' pensions scheme for the profession should be paid for by means of additional percentage contributions, one half of the cost being paid by the teacher and one half by the employer. Deficiencies, if any, could be met by raising the percentage contributions of both sides. They pointed to the fact that not only in the civil service but also within the field of public corporations such as the B.B.C. and of nationalised industries there existed widows' pensions schemes financed by contributions paid by both employers and employees. They felt that teachers had a legitimate claim to similar treatment.

Views of education authority and departmental representatives

24. The representatives of the education authorities pointed out that when the Local Government Superannuation (Scotland) Act, 1953, was introduced to

make provision, among other things, for pensions for widows of local government employees, this provision was made without cost to local authorities by abatement of the benefits which were already available. They considered that the local authorities would disapprove of the selection of one group of their employees for specially favourable treatment in the matter of benefits for widows. If the principle of shared cost were to be conceded in the case of pensions for the widows of teachers it would, in their view, be impossible to avoid its extension to other groups of local government employees for whom such provision was made or might in future be made. The cost of such provision would be too great. Moreover, the education authority representatives felt that they must have regard to the fact that, in terms of the Act of 1956, in addition to meeting contributions towards the cost of the main pension scheme for teachers amounting to 6 per cent. of the teachers' salaries, the education authorities are also required to meet any deficiency in the main scheme which might be certified at any of the quinquennial actuarial inquiries. This was an undefined and possibly substantial future commitment which would have to be met by the payment of supplementary contributions. In these circumstances they thought it most unlikely that the local authorities would agree to the provision of pensions for the widows of teachers on conditions which would increase the weight of the financial burden to which they were already committed in respect of teachers' superannuation.

25. The members of the Working Party nominated by the Scottish Education Department drew attention to the fact that the view of the Government, even before the passing of the Act of 1956, had been substantially in line with that expressed by the local authority representatives. The Government's adherence to the policy that the cost of the provision of any widows' pensions in an occupational scheme in the public service must be borne entirely by the employee had been made clear on more than one occasion within the last two years. The Report of the Committee on the Superannuation of University Teachers (January, 1960) proceeded on this basis in its examination of this question in relation to university staffs and it has also been applied to the superannuation schemes to be established under legislation passed in 1961 for the staffs of agricultural research institutes and colleges both in Scotland and England.

26. If a shared cost scheme of pensions for the widows of teachers were to be provided, the Government's share of the employers' annual cost and provision for past service (which would be met through the general grants) would be larger than that which the local authorities would have to bear. Acceptance of the principle of shared cost in grant-aided superannuation schemes could not be limited in its application to any scheme or schemes in Scotland alone. The Government Actuary's estimates of the employers' annual and past service costs on a Great Britain basis were respectively £1.75 million annually and £25 million, of which the Exchequer's share would be about £1 million and £15 million. Bearing in mind that the Government had assumed the burden of meeting the large deficiencies on the teachers superannuation accounts amounting to £312 million at 31st March, 1956, it did not seem reasonable to assume that it would be willing to add to that burden or to reconsider the decisions made in 1956.

27. Moreover the Government would also have to consider the almost certain repercussions of a shared cost scheme for teachers' widows on the National Health Service Superannuation Schemes and Local Government Superannuation Schemes. For the National Health Service Schemes the Ex-

chequer would have to provide about another £2 million annually and £30 million to cover the employers' annual and back service costs respectively. The additional annual charge on the employer in local government schemes would amount to about £3 million with a back service cost of about £50 million. Thus taking the schemes for teachers, local government staffs and health service employees together, the Government's and local authorities' liabilities would be increased by £6.75 million annually plus some £105 million for back service. This would be in addition to about £400 million in respect of deficiencies in the Teachers' and Health Services' Superannuation Schemes which the Government have already met. In the circumstances it was very unlikely that the Government would feel able to agree to shared cost pension schemes for the widows of public service employees, including teachers.

28. On the argument about incentives, both the education authority and departmental members of the Working Party agreed that a widows' pension scheme was a highly desirable feature of conditions of service in any profession and that the introduction of a suitable scheme for teachers might well be some incentive to recruitment. They could not, however, accept any claim that to be an incentive to recruitment such a scheme must be the same in any particular respect as any specific scheme applicable to another occupation. They pointed out that, except for civil servants, no provision on a shared cost basis has been made for any employees in a comparable service where the superannuation provision is wholly or partly financed by Government grants. They did not think it justifiable to pick out from the conditions of service of other professions isolated features which by themselves seemed particularly attractive. The circumstances of different professions varied widely, and conditions of service as a whole reflected these circumstances. Some professions have particular advantages in one direction, others in other directions, but it would be unreasonable to expect all the various advantages in any one profession. On the particular question of widows' pensions, the most that could be expected, as with conditions of service as a whole, was broad comparability.

OTHER BASES FOR SCHEME

29. In these circumstances the representatives of the local authorities and the Department thought that although a shared cost scheme could hardly be more than a remote possibility, it was incumbent on the Working Party to see whether it was possible to devise a scheme broadly comparable with other public service schemes both in benefits and in actual cost to the participants although necessarily on a different basis of contribution from that advocated by the teachers. If such a scheme could be devised, it would provide a financial safeguard for the wives and families of teachers in the event of death during service, which must be the consideration of primary importance in this whole problem, and thereby bring about the improvement in conditions of service desired by teachers. The teacher representatives for their part maintained their position on the question of shared cost. We all agreed, however, to join in considering, without prejudice to the views held by the bodies nominating us, whether any other way of paying for a suitable scheme of widows' pensions might be possible.

30. Such a scheme would not on the one hand—

(a) necessarily involve the surrender of so large a proportion of the lump sum as to make it unacceptable to many existing teachers; nor, on the other,

(b) depend upon a financial contribution from the employers which would make it unacceptable to the local authorities and to the Government.

We therefore examined the background to various pensions schemes and also obtained actuarial estimates of possible benefits, costs, methods of administration, etc., for a widows' pension scheme that might be suitable to the salary structure and other relevant aspects of teaching employment. These investigations showed that it should be possible, given the agreement of all concerned, to produce a scheme meeting these requirements.

31. We therefore outline in the next section of this Report the main features that might be embodied in such a scheme, indicating various possibilities in the way of benefits, contributions, arrangements for teachers already in service, methods of administration, etc. At the request of the teacher representatives, the outline includes an indication of the effect of a sharing of the contributions necessary to meet the cost of this kind of scheme. Its main purpose is, however, to show, without any recommendation either for or against the adoption of any of the various alternative components which might be incorporated in a scheme, that it would be entirely practicable to provide on a basis other than that of equal contributions by teachers and their employers a widows' pension scheme wholly comparable, in range and scale of benefits and in the form and amount of payment by participants in it, with those available in other sectors in the public service.

VI. Outline Provisions for Alternative Schemes

32. The basic difference between any scheme based on the conditions outlined below and those outlined by the previous Working Party is that the future service cost would be met by annual contributions and not by redistribution of existing benefits. Such a scheme might be one of two main types:

(i) where the widow's pension and the annual contribution for each teacher are fixed amounts—although there could be periodical adjustments to allow for salary increases; or

(ii) where the widow's pension is related to the actual or notional pension in the same way as, for example, in the civil service.

FIXED BENEFITS SCHEME

33. A scheme to provide a predetermined rate of benefit financed by a level contribution could be set up by means of insurance policies with a life assurance company or a consortium of companies. The scheme could make provision, by the taking out of additional policies, for increases in the widow's pension by stages as a teacher's salary increases. It would, however, necessarily be less flexible than the alternative type of scheme and there would be particular difficulties in covering the case of a teacher who had to retire prematurely on account of ill-health. Such a scheme would not seem to be as suitable or to offer such attractive terms as a variable benefits scheme administered as described in paragraph 38. The possibility of a scheme run as a Registered Friendly Society was not pursued as the maximum pension would have to be limited to £104 per annum.

VARIABLE BENEFITS SCHEME

34. Before examining the second alternative we considered what range and scale of benefits would be desirable. We agreed that the benefits provided in most schemes of this type in the public service field appeared to be generally satisfactory. The outline scheme described follows in general that in force for the civil service. The detail given is, of course, intended to be illustrative only but, if the parties concerned were to agree to consider the introduction of such a scheme, it may provide a useful starting point for the working out of definite proposals. The main provisions would be as follows:

(i) On the death of a married man who had completed ten years' service the widow would receive a pension of the greater of £100 per annum or one-third of the pension that her late husband was receiving or to which he would have been entitled had he retired on grounds of ill-health on the day of his death.

(ii) The pension to the widow would be increased by a quarter for each child, up to a maximum of four, under age 16 or in full-time education if over that age.

(iii) Widows' pensions would cease on remarriage but children's allowances would continue.

(iv) Where the mother had died a pension would be payable in respect of any children on the scale, one orphan—one half, two orphans—three-quarters, three or more orphans—the whole of the pension that would have been payable to the widow.

(v) Contributions would be at the rate of 2 per cent. of salary, the cost of benefits in respect of past service being met by an additional annual contribution or by deduction from lump sum or by a combination of the two.

(vi) On death or retirement as a bachelor, or as a married man with less than ten years' service, all contributions together with interest at 3 per cent. per annum would be returned. Where a teacher married but the marriage came to an end before his death or retirement, the contributions paid since he ceased to be married would be similarly returnable.

(vii) Contributions would also be returned with interest when an unmarried teacher withdrew from teaching service and applied for a return of his contributions under the Teachers Superannuation Scheme. A married teacher would receive a return of one-half of the amount payable to an unmarried teacher.

(viii) The scheme would be compulsory for new male entrants to teaching service but serving men teachers would have the option of joining the scheme. (The position of married women is explained in paragraph 45.)

Examples showing the amount of widows' pension provided under a variable benefits type scheme in the event of death at various ages in several typical teaching careers are given in Appendix II.

COST OF SCHEME

35. The two per cent. contribution is based on a long term rate of interest of $3\frac{1}{2}$ per cent. per annum and assumes that the employing authorities and the Department would be willing to administer the scheme without charge. If the

shared cost principle were to be adopted, the annual contribution of two per cent. of salary would be shared on some agreed basis between the employing authorities and the teachers.

Provisions applying to existing teachers

36. As must always be the case on the introduction of new schemes of this kind, serving teachers joining the scheme would have to meet the cost in respect of their past service. This could be done either by an additional annual contribution or by reduction of the lump sum payable on retirement. Examples of past service costs are given in Appendix III. It would also be possible to pay for the past cost by a combination of additional annual contribution and reduction of lump sum. The additional contribution might be limited to, say, 5 per cent. of salary, the balance being met by reduction of lump sum. Alternatively, the maximum reduction of lump sum allowance might be limited to one-third, the balance of cost where this maximum was reached being met by the appropriate additional contribution.

Method of administration—an "Account" scheme

37. A widows' pension scheme on the lines just described could be administered in the same way as the main Teachers Superannuation Scheme but operating with a separate account. The rate of interest credited by the Government to the balance in the main scheme account is 3½ per cent. per annum and it is doubtful if they would agree to a higher rate for any account set up for widows' benefits. Provision would need to be made for periodic valuations, and increases in salary levels would lead to a deficiency and a consequent increase in the rate of contribution.

Method of administration—a "funded" scheme.

38. Alternatively, the scheme could be administered by setting up a fund operated under a representative Board of Management who would suitably invest surplus income. As in the case of the "Account" alternative referred to in the preceding paragraph, provision would have to be made for periodic valuations and for increase in contributions to meet any deficiency. In order to secure the approval of the Inland Revenue authorities for the fund's enjoying the benefit of tax-free investment the employer must contribute. It is understood however that, provided the employing authorities and the Scottish Education Department were willing to meet the entire expense of administering the scheme including the investment of the funds—a not unsubstantial cost—this would be regarded as satisfying the requirements of section 379 of the Income Tax Act, 1952, in regard to the employers' contribution. If a scheme were approved the investment income would be tax free and the teachers' contributions would secure income tax relief on the basis described in paragraphs 41 and 42.

39. The contribution has been calculated on the basis of a long-term rate of interest of 3½ per cent. The excess earnings above this rate which are now obtainable on investment would be a valuable offset against any strain caused by increases in salary levels. If a surplus were disclosed at a valuation, improvements in benefits might be possible.

Income tax relief

40. If a fund were set up with its own investments on the lines of paragraph 38, and were framed in such a way as to secure approval under section 379 of the Act of 1952, the terms of the Act are such that existing teachers and new entrants alike would enjoy tax relief which would be obtained in different ways but which would result in broadly comparable net outlays.

41. Existing teachers would be allowed to treat their contributions as an expense before assessment to tax. This would mean that, for all teachers paying tax at the standard rate, their basic contribution would be reduced to a net 1.40 per cent. of salary. Additional annual contributions in respect of past service would also qualify for relief but as lump sum allowances are not taxable no relief would be obtainable in respect of deductions therefrom.

42. For new entrants the rate of relief and the net outlays are set out in the following table:

Amount of total income	*Rate of relief granted on contributions*	*Net outlay*
Not exceeding £1,000 per annum.	One half of the standard rate of income tax.	1.61 per cent. of salary.
Exceeding £1,000 but not exceeding £2,000 per annum.	Three quarters of the standard rate of income tax.	1.42 per cent. of salary
Exceeding £2,000 per annum.	The full standard rate of income tax.	1.23 per cent. of salary.

It should be noted that this relief for new entrants would be a relief of tax and not an adjustment on taxable income as in the case of existing teachers. Hence earned income relief obtained by new entrants would not be restricted. At the present standard rates of tax and of earned income relief the new entrant teacher with an income of between £1,000 and £2,000 per annum would be almost in the same position in respect of the basic contribution as the existing teacher who secures relief on his contributions as an expense against his taxable income but loses the corresponding earned income relief.

43. Under an equally shared cost arrangement the percentages in the foregoing paragraphs would be halved as would the cost of paying for past service. It is to be noted, however, that in the Civil Service Scheme where contributions are equally shared there is no income tax relief in respect of employees' annual contributions of 1.25 per cent. of salary.

44. If the scheme were administered through an " Account " as described in paragraph 37, tax relief would be obtainable by new entrants on the basis of the scale set out in paragraph 42. As, however, existing teachers would have the option of contributing or not, they would not satisfy the relevant requirements of the Income Tax Act and it would not appear that any relief could be secured by them.

Admission of married women and provision for other dependants

45. We think it most desirable that a scheme should provide for the admission of married women teachers with dependent husbands and of widows in teaching service who have children, and also that provision might be made, so far as practicable, for other dependants of teachers. In view, however, of the complex

questions that arise on the terms on which such different kinds of provision might be made, these matters would be best considered after the form of a scheme for the widows and children of men teachers has been decided.

VII. Conclusion

46. We did not consider it our function to attempt to work out the full details of any one or more forms of widows' pension scheme for teachers. We conceived it to be to set out for the benefit of those who will consider our Report the various facts and arguments bearing on the question of providing such a scheme, to give our views—whether unanimous or differing—on the implications of these facts and the cogency of these arguments and to indicate, if we were able so to do, means of overcoming the difficulties which have hitherto prevented agreement on the form which a pension scheme for teachers' widows might take.

47. In the event, all members of the Working Party are of the view that the present legislative provisions, limiting as they do the financial basis of a scheme to a redistribution of existing benefits, do not allow of the formulation of a scheme suitable to the needs of the teaching profession. We think that these needs would be satisfactorily met only by the establishment, under amended legislation, of a scheme, the future service cost of which would be met by annual percentage contributions. The teacher members contend that there are strong arguments for such contributions to be shared by teachers and their employers. The other members are unable to take the same view as the teachers in this respect and have pointed out the considerations against the acceptance by the Government and the local authorities of a shared cost arrangement. Nevertheless, we have worked out various possibilities for a scheme which, if agreement on shared contributions cannot be reached, would seem to offer a basis for a new approach to the question of the introduction of a widows' pension scheme. Under a funded scheme on the lines described, teachers would secure the participation in ways other than by contributions of education authorities and the Scottish Education Department, thus qualify for tax relief on their contributions, and reduce their net outlays to a percentage of their salaries approximating to that paid by civil servants for their widows' pension scheme. Where, as may be necessary in the cases of some serving teachers who have opted to join the scheme late in their careers, some surrender of lump sum benefits has to be made, this could be restricted to a limited proportion of the sum concerned. Such a scheme would offer over the Civil Service Scheme the advantage of a minimum pension for widows which at £100 would be much greater than the £26 under that Scheme. The suggested provision for the continuance of children's allowances on the remarriage of the widow would also be an advantage of the proposed scheme. If the scheme were to be a funded one, it would be reasonable to expect the need for increased contributions to be much less than would otherwise be the case. Some improvement in benefits might later be possible if surpluses were produced. Taken altogether, such a scheme would offer the individual teacher a range and value of cover more attractive than would be obtainable under normal life insurance arrangements.

48. We think that it is of the first importance to secure the introduction, as soon as may be practicable, of a pension scheme for teachers' widows. We

consider that the possibilities we have outlined offer the prospect of a real improvement on any form of provision possible under present legislation. In these circumstances, we submit the choice of possibilities that we have outlined to the consideration of all concerned.

VIII. Summary of Conclusions

49. We consider it desirable that provision should be made for pensions for the widows, dependent widowers, children, and (so far as practicable) other dependants of teachers (paragraph 5.)

50. The present legislative provisions, which limit the financial basis of a scheme to a redistribution of existing benefits and which for practical purposes would involve substantial encroachment on the lump sum payable on retirement, do not permit the formulation of a suitable scheme (paragraphs 13-17).

51. We think that amending legislation should be introduced with as little delay as possible to allow of the introduction of another financial basis for a scheme acceptable to the parties concerned (paragraphs 18-20).

52. Examination of the arguments relating to a scheme with percentage contributions shared between teachers and their employers shows the grounds on which the teacher members favour this arrangement. The other members, however, are of the opinion that, on balance, these grounds are not such as to justify the acceptance of such a scheme by the local authorities and the Government (paragraphs 21-28).

53. In view of the primary importance of providing a financial safeguard for teachers' families we considered whether an alternative scheme could be devised which would not, on the one hand, involve the surrender of too large a proportion of the lump sum nor, on the other, depend on a financial contribution from employers. We show that a scheme wholly comparable with those available in other sectors of the public service would be practicable (paragraphs 29-31).

54. After considering the main types of scheme possible we give for a variable benefits scheme, which would be compulsory for new entrants, illustrative details of possible scales of benefits and contributions. These include a minimum pension for widows of £100 after completion of 10 years' service; continuance of child's allowance on the widow's remarriage; gross contribution rate of two per cent.; full repayment of contributions with interest on death or retirement as a bachelor or as a married man with less than ten years' service; and repayment of contributions paid since end of marriage where this occurs before death or retirement (paragraphs 32-35).

55. Teachers in service would have the option of joining the scheme on meeting past service costs either by additional annual contributions or by reduction of lump sum or by a combination of both, with maximum limits on either element (paragraph 36).

56. Of alternative methods of administration, a funded scheme—assuming that the employing authorities and the Department would administer it without charge—would secure the benefit of tax-free investment and tax relief on teachers' contributions. Favourable earnings on investments might provide means of countering strain caused by increases in salary levels and of securing improved benefits from any surplus (paragraphs 37-39).

57. While under a scheme administered through an Account tax relief would be obtainable by new entrants only, a funded scheme would enable tax relief

to be obtained by both existing teachers and new entrants in ways which would reduce their net outlays on the basic contribution to an average level of about 1.4 per cent. of salary (paragraphs 40-44).

58. The admission of married women teachers with dependent husbands and of widows in teaching service who have children is desirable, and the terms on which this might be done together with the question of provision for other dependants should be considered after the form of a main scheme has been decided upon (paragraph 45).

59. In general, we think that the difficulties that have hitherto prevented agreement can be overcome by the establishment under amended legislation of a funded scheme under which future service cost is met by annual contributions. We are not agreed on the question of the sharing of such contributions, but the possibilities we outline offer a new approach under which teachers might secure, for net outlays approximating to the percentage contribution paid by civil servants and with a limit on the extent of lump sum surrender required for past service, a scheme with some advantages over the civil service scheme and offering a range and value of cover more attractive than that obtainable under normal life insurance arrangements (paragraphs 46-48).

ACKNOWLEDGMENT

60. In conclusion we desire to place on record our appreciation of the services of our Secretary, Mr. D. G. Blyth. His wide and detailed knowledge of the complex structure of teachers' superannuation and of the factors in its development and the industry and skill with which he assembled the material relevant to our task have been invaluable to us. To him, and to Miss J. C. Shiels for the competent way in which she assisted him in the work necessitated by our inquiry, we offer our grateful thanks.

H. H. DONNELLY, Chairman,
on behalf of the Working Party.

St. ANDREW'S HOUSE,
EDINBURGH, 1.
31st July, 1962.

APPENDIX I

Extract of paragraphs 5 and 6 of the Report of the Working Party on Pensions for the Widows, Children and Dependants of Teachers in Scotland, published October, 1958 (Cmnd. 527).

The Statutory Provisions

5. By the terms of the remit our recommendations must be within the framework of paragraph 3B of Part II of the Third Schedule to the Education (Scotland) Act, 1946, as amended by section 34 of the Teachers (Superannuation) Act, 1956. For convenience of reference we quote the relevant provisions of the Schedule.

> "The Regulations may without prejudice to the generality of paragraph 4 of the first Part of this Schedule provide . . .
>
> 3B. for the payment of pensions of such amounts, in such cases and subject to such conditions as may be prescribed, to and for the benefit of the widows or widowers and the children (including children over school age) or other dependants of teachers who die after such date as may be prescribed and who when they die are in receipt of or eligible for an annual allowance or are employed in service and are in such circumstances that, if they had not died, they could have established a claim to an annual allowance on the grounds of infirmity, or, having been employed for not less than ten years in service or in service and second class service, die within such period after ceasing to be so employed as may be prescribed; for the application of such provisions in so far as they relate to pensions for widows, widowers and children, irrespective of election, to male teachers or to both male and female teachers who enter service or second class service on or after such date as may be prescribed, and to such male and female teachers to whom such provisions so relating do not apply as may elect that such provisions so relating shall apply to them or as do not elect that such provisions shall not apply to them; for the application of such provisions in so far as they relate to pensions for dependants to such male and female teachers as may elect that such provisions so relating shall apply to them or as do not elect that such provisions shall not apply to them; for the surrender or repayment in exchange for the said pensions of so much of the lump sums or death gratuities payable or paid, or of contributions returnable or returned, to or in respect of the said teachers as may be prescribed as being sufficient in the opinion of the Secretary of State to support the said pensions; and for such consequential and other matters as may appear to the Secretary of State to be necessary for the carrying out of the purposes of this paragraph."

6. After a close examination of these statutory provisions we have analysed the limitations within which we must make our recommendations and set these out in detail in this paragraph.

(1) The Regulations are to prescribe the amounts of the pensions to be paid, the cases in which they are to be paid and the conditions subject to which the pensions are to be paid.

(2) The beneficiaries may be widows or widowers and the children (including children over school age) or other dependants of teachers who die on or after a date to be prescribed in the Regulations. We considered whether the date to be prescribed must be a date after the Regulations come into operation or whether it could competently be an earlier date. Our attention

was drawn to section 41(4) of the Teachers (Superannuation) Act, 1956, which enacts that without prejudice to the retrospective effect of any provision of the Act the Act shall come into operation on 1st October, 1956. We also examined section 101(2) of the Education (Scotland) Act, 1946, as amended by the Education (Scotland) Act, 1956. This provides that the Regulations must prescribe the date upon which they are to come into operation, that different dates may be prescribed for different parts of the Regulations and that any date so prescribed may be a date earlier than the date upon which the Regulations are made, but with safeguards for teachers prejudiced by the retrospective application of the Regulations. We therefore decided that we were not precluded from recommending that the Regulations should have retrospective effect from a prescribed date.

(3) The circumstances of the teacher at the date of his death (which must be on or after the date prescribed in the Regulations) must be such as to fulfil one of the following conditions:

(a) he must be in receipt of a pension; or
(b) he must be eligible for a pension; or
(c) he must have died in service in such circumstances that, if he had not died, he could have established a claim to a pension on the grounds of infirmity; or
(d) he must have been in service for 10 years and have died within such period after ceasing to be employed as may be prescribed in the Regulations.

(4) The Regulations, in so far as they relate to pensions for widows, widowers and children, are to apply compulsorily to male teachers who enter service on or after a date to be prescribed in the Regulations and may also be applied compulsorily to female teachers entering service on or after that date. For the reasons given in sub-paragraph (2) above we are of opinion that we are not precluded from recommending retrospective application of this provision.

(5) Teachers, male and female, who are not brought compulsorily under the Regulations referred to in sub-paragraph (4) may elect that the Regulations shall apply to them, or the Regulations may provide that they are to apply to teachers not compulsorily under them who do not elect to be excluded.

(6) The Regulations, in so far as they relate to pensions for dependants are to apply to such teachers as elect that they apply, or to such teachers as do not elect that they do not apply.

(7) The pensions are to be paid for either—

(a) by the surrender or repayment of so much of the lump sum as is in the opinion of the Secretary of State sufficient to support the pensions, or
(b) by the surrender or repayment of a similar amount of the death gratuities, or
(c) by the surrender or repayment of a similar amount of contributions returnable or returned.

(8) The Regulations may provide for consequential and other matters necessary for carrying out the purposes of paragraph 3B of Part II of the Third Schedule to the Act.

Examples of benefits provided under a variable benefits type pension scheme for the widows of teachers

Several possible careers of teachers have been selected for the purpose of illustrating the operation of a variable benefits type scheme. The examples show the widow's pension provided in the event of death at various ages.

Career A: (1) Honours Graduate (Chapter V) paid on Scale I—£840, £895, £950, £1,010, £1,100, £1,190, £1,280; Special Assistant at age 30 with responsibility element of £90 per annum so that the scale proceeds—£1,450, £1,530, £1,610, £1,690; Principal Teacher at age 34 with responsibility element of £230 per annum, so that salary becomes £1,830; responsibility element £305 per annum from age 40 on joining larger school and salary becomes £1,905; Head Teacher at age 44 with responsibility element £915 per annum and total salary £2,515; responsibility element £1,585 per annum from age 52, total salary, £3,185.

Career A: (2) Honours Graduate (Chapter V) paid on Scale I—£840, £895, £950, £1,010, £1,100, £1,190, £1,280, £1,360, £1,440, £1,520, £1,600; Principal Teacher at age 38 with responsibility element of £165 per annum so that total salary becomes £1,765; responsibility element £305 per annum from age 45, on joining larger school, and salary becomes £1,905.

Career B: (1) Ordinary Graduate (Chapter IV with Article 39 endorsement) paid on Scale III (plus £90 per annum while he is teaching in the secondary school)—£770, £800, £830, £860, £890, £950, £1,010, £1,060, £1,110, £1,160, £1,215, £1,270, £1,330; Deputy Head Teacher of Primary School at age 38 with responsibility element of £175 per annum and total salary of £1,415; Head Teacher of Primary School at age 47 with responsibility element of £525 per annum and total salary of £1,765.

Career B: (2) Ordinary Graduate (Chapter IV with Article 39 endorsement) paid on Scale III plus £90 per annum—£770, £800, £830, £860, £890, £950, £1,010, £1,060, £1,110, £1,160, £1,215, £1,270; Principal Teacher at age 35 with responsibility element of £125, salary £1,455.

Career C: Ordinary Graduate (Chapter IV) paid on Scale III—£680, £710, £740, £770, £800, £860, £920, £970, £1,020, £1,070; Head Teacher of small Primary School at age 33 with responsibility element of £200 per annum, so that the scale proceeds £1,325, £1,380, £1,440; Head Teacher of larger Primary School at age 46 with responsibility element of £400 and total salary £1,640.

Career D: Teacher of Technical Subjects (Chapter VI based on a Diploma in Educational Handwork of a College of Education gained at a course beginning later than October, 1956) paid on Scale VI—£560, £580, £600, £620, £640, £690, £740, £790, £825, £860, £900, £940, £980, £1,025, £1,070.

Age of teacher at death (last birthday) (1)	Assumed salary of teacher at time of death (2)	Assumed years of service at date of death (or retirement) (3)	Amount of widow's pension (4)	Amount of additional pension for children (the number of children at the date of death is shown in brackets) (5)
34	Career A(1) £1,830	11½	A(1) £138 7 0	A(1) £ 69 3 6 (2)
	,, A(2) £1,600		A(2) £128 18 0	A(2) £ 64 9 0 (2)
	,, B(1) £1,270		B(1) £100 0 0 (minimum)	B(1) £ 50 0 0 (2)
	,, B(2) £1,270		B(2) £100 0 0 (minimum)	B(2) £ 50 0 0 (2)
	,, C £1,380		C £100 0 0 (minimum)	C £ 50 0 0 (2)
	,, D £ 940		D £100 0 0 (minimum)	D £ 50 0 0 (2)
41	Career A(1) £1,905	18½	A(1) £155 12 0	A(1) £116 14 0 (3)
	,, A(2) £1,765		A(2) £147 2 0	A(2) £110 6 6 (3)
	,, B(1) £1,415		B(1) £117 18 0	B(1) £ 88 8 6 (3)
	,, B(2) £1,455		B(2) £121 5 0	B(2) £ 90 18 9 (3)
	,, C £1,440		C £120 0 0	C £ 90 0 0 (3)
	,, D £1,070		D £100 0 0 (minimum)	D £ 75 0 0 (3)
48	Career A(1) £2,515	25½	A(1) £267 4 0	A(1) £200 8 0 (3)
	,, A(2) £1,905		A(2) £202 8 0	A(2) £151 16 0 (3)
	,, B(1) £1,765		B(1) £168 19 0	B(1) £126 14 3 (3)
	,, B(2) £1,455		B(2) £154 12 0	B(2) £115 19 0 (3)
	,, C £1,640		C £170 14 0	C £128 0 6 (3)
	,, D £1,070		D £113 14 0	D £ 85 5 6 (3)
55	Career A(1) £3,185	32½	A(1) £431 6 0	A(1) £215 13 0 (2)
	,, A(2) £1,905		A(2) £257 19 0	A(2) £128 19 6 (2)
	,, B(1) £1,765		B(1) £239 0 0	B(1) £119 10 0 (2)
	,, B(2) £1,455		B(2) £197 1 0	B(2) £ 98 10 6 (2)
	,, C £1,640		C £222 2 0	C £111 1 0 (2)
	,, D £1,070		D £144 18 0	D £ 72 9 0 (2)
65 or over	Career A(1) £3,185	42½	A(1) £564 0 0	A(1) £000 0 0 (–)
	,, A(2) £1,905		A(2) £337 7 0	A(2) £000 0 0 (–)
	,, B(1) £1,765		B(1) £312 11 0	B(1) £000 0 0 (–)
	,, B(2) £1,455		B(2) £257 7 0	B(2) £000 0 0 (–)
	,, C £1,640		C £290 8 0	C £000 0 0 (–)
	,, D £1,070		D £189 10 0	D £000 0 0 (–)

Notes:

1. It has been assumed that a teacher enters first class service at the age of 23.
2. The service shown is the assumed number of years of service to the date of death, except for teachers 65 years of age or over at death where the service entered is that assumed at the date of retirement.
3. Where the assumed years of service are between ten and twenty, widows' pensions are based on twenty years' service, the service on which a disablement allowance would have been calculated.

APPENDIX III

Examples of the cost of paying for past service

Present age of teacher	*Assumed years of past service*	*Additional annual contribution in respect of past service (percentage of salary)*	*Alternative deduction from lump sum in respect of past service (80ths of salary)*	*Lump sum deduction limited to one-third† together with additional annual contribution to meet balance of cost*	
				Lump sum deduction (80ths of salary)	*Additional annual contribution (percentage of salary)*
(1)	(2)	(3)	(4)	(5)	(6)
30	7	0.4	18	18	—
35	12	1.0	31	31	—
40	17	1.8	43	42	0.1
45	22	3.0	54	42	0.7
50	27	5.0	63	42	1.7
53	30	7.0	67	42	2.6

†—Retirement is assumed at age 65.

Note:

In those cases of older teachers where the deduction in respect of past service exceeds one-third of the lump sum payable on retirement at age 65, the lump sum deduction can be limited to one-third either through meeting the balance of cost by an additional annual contribution as shown in the examples or the widow's pension could be reduced to allow for the shortfall in contribution.

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